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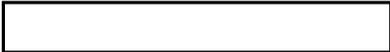
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INTERNATIONAL ISSUES REVIEW

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Among developing countries, the Latin American states have led in establishing national regulations to control transnational corporations and technology transfer. They are divided, however, on their approaches to international control of these activities.

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This publication is prepared by the International Issues Division, Office of Regional and Political Analysis, with occasional contributions from other offices within the National Foreign Assessment Center. The views presented are the best judgments of individual analysts who are aware that many of the issues they discuss are subject to alternative interpretation. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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Arms Transfers and Leverage: The Case of Iran

An earlier article in International Issues Monthly Review developed a framework for analyzing the efficacy of arms transfers as a means to exert leverage.* The following article applies this framework to the transfer of US arms to Iran, which is the leading purchaser of American-made military equipment and an emerging regional power.** It concludes that arms transfers give the US little coercive leverage against Iran, although they make possible the exercise of subtler forms of influence.

* * *

Whether the US could influence Iran's policies by manipulating the arms flow, or threatening to do so, depends chiefly upon: (1) the extent to which each country relies on a continuation of the arms flow; (2) the US objective in exerting influence; and (3) the other means each side has of pressuring the other.

Each Side's Stake in the Arms Transfer

Iran has spent heavily on US arms. Of the nearly \$25 billion worth of foreign-made weapons it has purchased over the last two decades, about three-fourths has come from the US. The Shah prefers to buy US equipment because he believes it is generally of better quality and more advanced than what is available elsewhere. He also values the political tie with the US that the military supply relationship symbolizes. If forced to turn to other suppliers, Iran would not only lose these



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benefits but would incur costs from the switch itself. Specifically, Iran might face long delays in receiving substitute equipment from other manufacturers because of their previous sales commitments. In addition, the change would require replacement of existing training procedures and supply lines for spare parts.

Nevertheless, although these costs would be substantial, the Shah probably views them as tolerable. Only a few of the most advanced US weapons purchased to date do not have possible substitutes manufactured in other countries. (The exceptions probably include AWACS, the F-14, and the Phoenix missile.) The Shah, therefore, could fill most of his needs by shopping elsewhere. He may also believe that he and his regime could survive without the political tie symbolized by the arms supply relationship with the US. In his view, Washington cannot afford to "lose Iran" and consequently would come to its aid, despite previous differences, if it were seriously endangered. In short, the perceived costs to Iran of a curtailment in US arms supply are probably not as great as past sales figures suggest and are not great enough to guarantee compliance with a US demand.

Equally important in the US-Iranian relationship is the US stake in a continuation of arms transfers to Iran. Because of the economic and strategic concerns involved, the military security and political stability of Iran are important to the US as well as Iran. Any action that weakened Iran's defenses would thus be a risk to Washington as well as to Tehran. To the extent that a manipulation of the US arms supply carried this risk, the US would have an incentive not to manipulate it. The Shah would certainly take this into consideration in assessing the credibility of US threats to do so.

The Objective

The success of an attempt to exert leverage would also depend on the US objective in bringing pressure to bear--specifically, how important the issue at hand is to Iran and what direct relationship it may have to the use of arms.

The more important an issue is to the Shah, the less likely it is that a threatened reduction of the arms flow would be sufficient to induce him to defer to US wishes.

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Thus, on a major issue, he might perceive the costs of having to switch to a different arms supplier as being less than the costs of abandoning his preferred policy. A possible example of such an issue is human rights. The Shah would probably resist any effort to coerce him into faster liberalization than he considers acceptable because he would view it as an infringement on his right to safeguard the regime against terrorists and other internal threats.

If the policy difference between the Shah and the US related directly to using arms or armed force, US leverage might either increase or decrease. One such case would be Iran's use of armed force in a way that the US found objectionable. If his forces were engaged in an invasion or military intervention, the Shah would have to consider an American arms embargo not just as one more cost to weigh in making his decision, but as a constraint on the ability of his troops to complete their mission. Recognizing that the US could cripple his armed forces in this way, the Shah has emphasized the stockpiling of spare parts and supplies, preferring to take early delivery even when this creates problems of absorption. Despite these efforts, Iran's short-term vulnerability to a US arms embargo is considerable, especially since an embargo presumably would also involve a withdrawal of the day-to-day technical support from US personnel on which the Iranian armed forces heavily rely. This is particularly true of the Air Force, most of which would quickly be grounded if that support were withdrawn.

It is not likely, however, that Iranian armed forces would be involved in combat under circumstances in which US interests conflicted so sharply with those of Iran that an arms embargo appeared probable. In most scenarios involving Iran at war, US and Iranian interests would tend to converge rather than conflict (for example, border warfare with Iraq or the USSR). The interests of the two countries would sharply conflict only in the unlikely event that Iran were to wage war against a pro-Western state like Saudi Arabia or the United Arab Emirates or engage in military adventurism that the US saw as carrying the risk of wider war (for example, intervention in Afghanistan).

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A more probable cause of future friction between Tehran and Washington is the US policy of arms transfer restraint itself. The Shah remains unpersuaded by the arguments advanced in support of this policy, seeing it as discriminating in favor of industrialized countries and against developing nations like his own. Of course, a reduction in US arms transfers to Iran is the one foreign policy objective that the US could achieve unilaterally. There might be trade-offs, however, between a near-term reduction in US arms sales and the longer term possibilities of nurturing Iran's friendship or quietly influencing its policies. The more requests for arms the US turned down, the more likely it would be that Iran would turn to other suppliers, making it less susceptible to US influence in the future.

Another possible arms-related objective would be the retardation of nuclear proliferation. Given Iran's renunciation of nuclear weapons, this is not currently an issue in US-Iranian relations. Nevertheless, the development of nuclear weapons by another Middle East or South Asian state could change the Shah's attitude. Furthermore, as difficulties in recent negotiations on a bilateral nuclear cooperation agreement suggest, serious frictions with the US may arise over Iranian development of sensitive aspects of the civilian nuclear fuel cycle, particularly the reprocessing of spent fuel.* Arms transfers are closely related to the proliferation issue because the more militarily vulnerable Iran feels, the greater will be the risk that it will elect to acquire nuclear weapons. An increase in that risk is one potential result of restricting arms sales to Iran. Consequently, any curtailment of the arms flow intended to pressure the Shah into pursuing nuclear energy policies that are less proliferation-prone would probably be counterproductive.

*Iran may some day elect to reprocess abroad the fuel from its ambitious civilian nuclear program or even to construct its own reprocessing plant, although it apparently now has no plans for such a facility.

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The Overall Bilateral Relationship

Any attempt to exert influence through a manipulation of arms transfers would not take place in a vacuum; rather, the outcome of the attempt would depend on all of the threats, promises, favors, and pressures that each state could direct at the other. When the entire US-Iranian relationship is thus taken into account, the US bargaining position against Iran appears no stronger, and possibly weaker, than when arms transfers alone are considered. The US could restrict Iranian opportunities for trade and investment, but this possibility would be offset by Tehran's ability to curtail similar US opportunities in Iran and to manipulate the pricing and supply of oil. Tehran also has additional levers to use if relations with the US were to deteriorate, including

restricting the activities of the 30,000 US citizens resident in Iran.

Coercion Versus Other Forms of Influence

The foregoing suggests that despite Iran's considerable reliance on US arms, the role of supplier provides the US with little coercive leverage. In addition to the reasons already mentioned, coercive leverage would be limited by the Shah's desire not to be seen buckling to pressure. Avoiding the appearance of being coerced is particularly important for Iran because decisionmaking is so highly concentrated in the hands of the Shah. His personal prestige is thus on the line in every major issue--particularly in foreign affairs, his special preserve--making him especially resistant to external pressure.

A promise to furnish arms, unlike a threat to deny them, does not have this drawback. Neither the promise itself nor its linkage to a specific US policy objective need be made explicit to enable the US to exercise some influence on the Shah. There would still be limits to what the Shah would be willing to do, but he might well respond to the implicit promise of a continuing flow of arms by being more sensitive to US interests on a variety of matters, particularly minor issues where adjustments to Iran's policy would not be easily perceived by outsiders.

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Arms transfers also provide the US with some potential to exert longer term influence on Iran by providing a direct entry into its military establishment. Close and amicable working relationships with US personnel have left many Iranian officers with a favorable impression of the United States. These same relationships constitute a channel through which American values and perceptions can be quietly transmitted. This channel now serves only to create a reservoir of goodwill, but it could be much more important in determining the direction Iran takes after the present Shah's departure. In the event that radical forces opposed to both the Shah and the military someday come to power in Tehran, the memory of Washington's ties with the former regime might increase the new government's dislike for the US. It is far more likely, however, that the military itself will be the principal pillar of a successor regime. The attitudes nurtured now through the arms sales relationship make it more probable that such a regime will remain friendly to the US.

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WHITEHALL REFLECTS ON THE SECOND NPT REVIEW CONFERENCE

The Nuclear Non-Proliferation Treaty provides for conferences to review its operation at five-year intervals. The second of these conferences will be held in 1980. Measures taken by the United States and other nuclear supplier countries to slow the process of nuclear weapons proliferation have sharpened differences among adherents to the treaty and between them and nonsignatories.* Preparations for the review conference are now beginning, and the United Kingdom recently discussed with US officials its approach to the conference.

* * *

A senior UK disarmament official believes that actions at this September's UN General Assembly session will probably set the tone for the 1980 Nuclear Non-Proliferation Treaty (NPT) review conference.

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_____ recently indicated that his government hopes a short, noncontroversial General Assembly resolution will establish a preparatory committee made up of NPT parties serving on the International Atomic Energy Agency Board of Governors and the newly established Committee on Disarmament. He also expressed concern that some nonaligned states that have not signed the NPT may seek to amend it. Although he believes the NPT could be improved, he said the United Kingdom should resist amendments rather than risk opening the treaty to potentially harmful changes.

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Whitehall has only begun its planning for the NPT review conference, but it already expects that there will be significant challenges to the treaty from key nonnuclear weapons states, such as India and Pakistan, even though they are not NPT parties. They cite evidence for this from the debate at the recently concluded UN Special Session on Disarmament.

The British are of the opinion, however, that further accessions to the NPT, even if not by the most important nonadherents, would demonstrate the value of the NPT and might increase pressure on the holdouts to sign. They point to Turkey, Indonesia, Sri Lanka, Oman, the United Arab Emirates, and Bahrain as countries that might be usefully approached. The British also believe that the issue of peaceful nuclear explosions (PNEs) will play a less important role than it did at the 1975 review conference, especially if a comprehensive test ban is concluded by 1980.

The NPT second review conference is likely to consider issues wider than the treaty itself, according to British Foreign Office officials working on it, and will probably examine general nonproliferation and nuclear transfer problems. As examples, these officials note that the United Kingdom will probably:

- Insist on the continued importance of the NPT and improved safeguards.
- Advocate nontreaty measures for controlling proliferation such as full scope safeguards and nuclear-weapon-free zones.
- Insist on progress toward nuclear disarmament as required by Article VI of the treaty.
- Promote discussion of alternate nuclear fuel cycle concepts developed at the International Nuclear Fuel Cycle Evaluation, nuclear fuel assurance schemes, and nuclear technology transfer proposals for peaceful purposes.

London is evidently looking forward to cooperating closely with the United States, as it did at the first NPT review conference. The British have not supported all

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aspects of recent US nonproliferation policy, but they continue to strongly support the NPT. Other US allies have complained that the treaty has not been working properly because of contravening actions by some nuclear supplier countries. They specifically point to Article IV, which guarantees treaty adherents access to nuclear materials for peaceful purposes under international safeguards. They complain that certain export restrictions imposed by the United States and Canada, such as embargoes on the sale of uranium and sensitive nuclear technologies, have undermined this portion of the treaty.

The British are probably right that the General Assembly session this fall will provide a venue for attacks on the NPT. It will also provide an opportunity for criticism of US nonproliferation policy in general, not only by nonaligned states but also by the West Europeans and Japanese, who resent restrictive export controls. If UN debate cannot be kept within moderate bounds, the prospects for an acrimonious and possibly counterproductive NPT review conference will be significantly increased. (CONFIDENTIAL)

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COMBATING INTERNATIONAL TERRORISM: THE BONN ECONOMIC
SUMMIT AGREEMENT

At the conclusion of the recent summit meeting in Bonn of seven major industrial countries, an addendum to the communique called for economic and other measures to be taken against states aiding hijackers.

"The heads of state and government, concerned about terrorism and the taking of hostages, declare that their governments will intensify their joint efforts to combat international terrorism. To this end, in cases where a country refuses extradition or prosecution of those who have hijacked an aircraft and/or do not return such aircraft, the heads of state and government are jointly resolved that their governments should take immediate action to cease all flights to that country. At the same time, their governments will initiate action to halt all incoming flights from that country or from any country by the airlines of the country concerned. The heads of state and government urge other governments to join them in this commitment."

Although the agreement represents progress in obtaining international cooperation against hijacking, it does not deal with other forms of terrorism.

* * *

The agreement has been widely hailed in the Western press as the first multilateral proposal that establishes effective sanctions and, although skepticism regarding implementation has also been aired, it has been viewed as a turning point in global antiterrorist efforts. Its potential effectiveness lies in the fact that the airlines of the seven participants (US, UK, Canada, France, Italy, Japan, and West Germany) together account for 69 percent of the total airline passengers carried in the

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non-Communist world. Other Western agreements on extradition or prosecution of terrorists, such as the Council of Europe treaty, have been criticized for their lack of sanctions.*

The measures agreed to in Bonn were first suggested in a surprise proposal by Japanese Prime Minister Fukuda and then seconded by Canadian Prime Minister Trudeau. Legal reservations that had barred common action on previous British, French, and West German initiatives on combating terrorism in Europe were overcome or passed over at the summit.

Fukuda may well have some second thoughts about his proposal, since he probably advanced the idea at least in part to offset criticism aimed at Japan for bowing to demands of Japanese Red Army hijackers last fall. The Prime Minister could now be concerned that future hijackings involving Japan might expose him to strong domestic pressure to save passengers' lives by yielding to hijacker demands and thereby violate the agreement that he originated.

Bonn II

In early August, at Italian and French suggestion, representatives of the seven signatories met in Bonn to work out technicalities of the process for informing other states of possible sanctions and for having other states participate in the scheme. The meeting established that the agreement will cover all hijackings, not merely those involving planes and/or passengers of any of the seven countries. Consultation and coordination of responses will be triggered by the government of the plane's operator or by any of the seven if the operator is from

*The European Convention for Combating Terrorism entered into force this month. The signatory states undertake either to extradite or prosecute any terrorist. The convention so far has been ratified by five of the 20 member states of the Council of Europe. The treaty is now binding on Austria, Sweden, and West Germany and will enter into force in Denmark on 28 September and in the UK on 25 October.

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a third country. Establishing responsibility, verifying compliance, and imposing sanctions where necessary will require unanimous approval, although individual governments are not forbidden to take other actions on their own. Other interested governments could be called into the consultations depending on the circumstances of the incident.

The conferees agreed that efforts would be spearheaded by the West German Ambassador in each relevant capital, who would either speak for the seven or coordinate joint demarches, depending upon local government relations with the seven. The West Germans, however, were not to notify other states of the declaration until 31 August so that the seven could prepare a concerted diplomatic approach. Several of the participants expressed hope that the ad referendum process can be speeded up, allowing action to begin sooner.

There may be yet another meeting to review the results of these diplomatic initiatives and to consider other matters involved in carrying out the agreement, including timing, scope, and legal implications.

Reactions

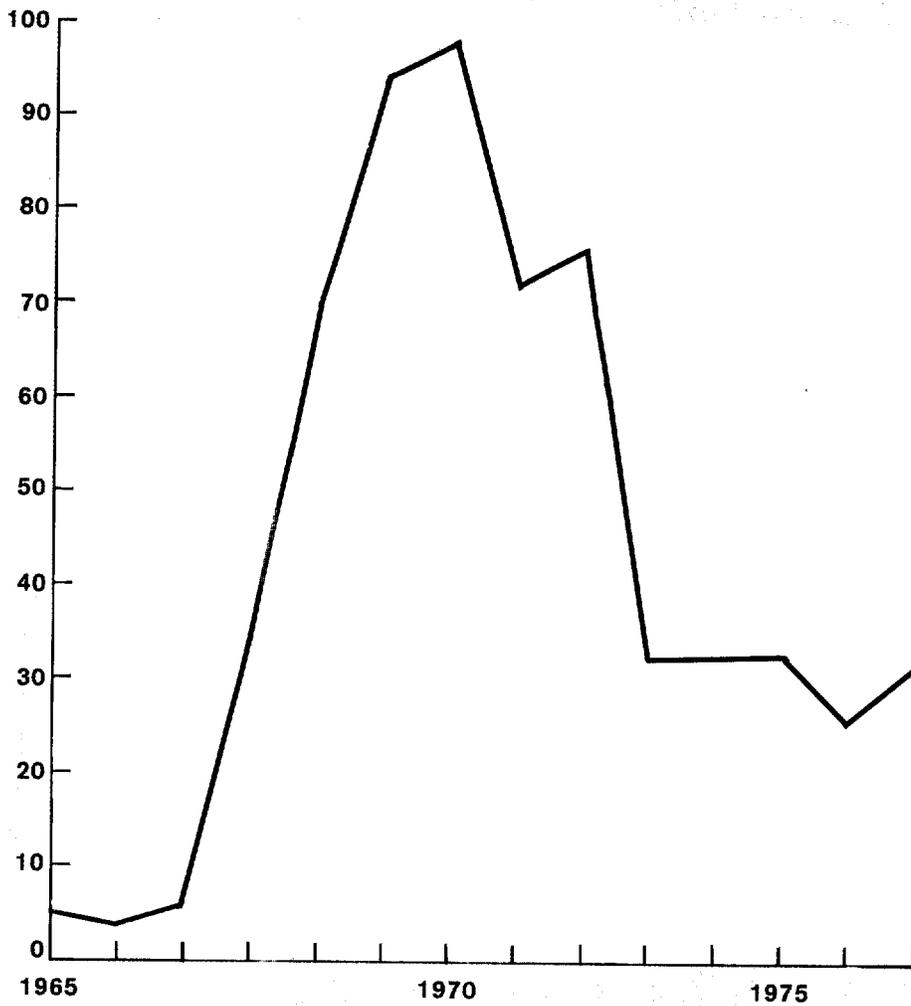
Although the agreement applies only to the seven countries represented at the conference, several of the participants quickly began canvassing other governments about extending its applicability. Most reactions have been tentative and along generally predictable lines. The governments of 23 countries (Austria, Denmark, Norway, Honduras, Guyana, Nicaragua, Venezuela, Trinidad and Tobago, Mexico, Barbados, Grenada, Paraguay, Bahamas, El Salvador, Iran, South Korea, Nepal, the Philippines, Chad, South Africa, Congo, Spain, and the Netherlands) have all expressed varying degrees of support for the agreement. The Dutch, however, have expressed fear that if states denied landing privileges to hijackers during incidents, this would increase the pressures on the hijacked aircraft's government to capitulate to the hijackers' demands. The Dutch also have pointed out that the declaration may adversely affect the attitudes of some countries now being approached by a "contact group" representing several governments seeking wider ratification of existing UN and ICAO conventions on aerial hijacking.

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Worldwide Aerial Hijacking Attempts



Note: These figures include all hijacking attempts or apparent attempts, whatever their degree of success.

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Finally, the Dutch, and probably others, have misgivings about the background of the summit action and may believe that they were left out of discussions of direct importance to them. Sympathetic, albeit noncommittal, reactions have been received from 13 other governments (Luxembourg, Haiti, Jordan, Afghanistan, Morocco, Qatar, Bahrain, the United Arab Emirates, Egypt, Sri Lanka, Cameroon, Mauritius, and Bangladesh).

An ambivalent response was made by Cuba. Although Havana has denounced its bilateral antihijacking agreement with the US, it has continued its separate accords with Canada, Mexico, Colombia, and Venezuela that call for return or prosecution of hijackers. It is doubtful that Havana will publicly support the Bonn accord, but it will probably continue to indicate that hijackers are unwelcome on Cuban soil. Iraq's response was comparable-- hijackers are to be turned away, but a public expression of support for the treaty is unlikely.

There have been strong negative reactions. A Libyan spokesman rejected the agreement, noting that it does not exclude hijackings committed in the name of national liberation. The Soviets [] publicly [] have questioned Washington's sincerity in adhering to the Bonn agreement, arguing that the US is sheltering two individuals who participated in a 1970 hijacking of a Soviet plane. During the past year the Czechs have chided the West Germans for granting asylum to hijackers in similar circumstances. Moreover, the Soviet press has asserted that the seven states intend to become an international police force and court and that they will apply sanctions in a one-sided fashion against countries "objectionable" to the West. Several East European governments, however, have recently demonstrated a willingness to cooperate against West European terrorists. The Soviets appear to believe that these individuals are uncontrollable and agreed to allow Bulgaria to cooperate with the West Germans by arresting four West German terrorists in June. The Yugoslavs in May arrested four other West German anarchists, although their extradition is pending West German compliance with a Yugoslav request for the turning over of several Croatian terrorists. Finally, travelers have reported seeing photos of fugitive West German terrorists on the desks of East European border police.

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Public statements notwithstanding, implementation of the agreement in specific cases will entail hard choices among conflicting policy objectives. Many countries may not be able to withstand the threat of economic retaliation by oil-producing states that extend aid to hijackers.

A comprehensive antihijacking system, if it becomes effective, still leaves much of the terrorist problem unsolved. Attempts to hijack aircraft have been declining since the peak incidence at the beginning of the decade (figure 1). This is due to increased security precautions at major airports; to the growing reluctance of radical governments to grant safe haven to terrorist hijackers who profess vaguely defined "revolutionary" goals; and, not least of all, to a shift in terrorist tactics from hijacking to the more common assassinations and bombings. These traditional forms of terrorism are not covered by the Bonn agreement. [redacted]

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Latin American Views on the UN Codes of Conduct for
Transnational Corporations and Transfer of Technology

As with almost all of the issues raised by the developing countries under the rubric of the New International Economic Order, efforts by developing countries (LDCs) to control transnational corporations and to improve the terms of technology transfer enjoy varying degrees of support among individual developing countries. The Latin American states, in large part because their relatively more industrialized level of development has made technology transfer and the role of multinationals major national issues, have led the way in establishing national regulations and in trying to establish international agreements to deal with these issues. This article discusses the factors affecting the different approaches of the Latin American states to these issues. Its principal conclusions are that:

- Differences among the major Latin American countries are becoming evident as they try to formalize a regional position on international codes of conduct for transnationals and for technology transfer. There are conflicts between those countries pressing for mandatory international controls and those that prefer to remain flexible in negotiations with the developed countries.
- Several other Latin American states have apparently reached the conclusion that neither code of conduct can be written in a meaningful way, but for political reasons most are likely to continue to support efforts to negotiate both codes. Nevertheless, any regional position will probably reflect the moderate leadership of Brazil, Argentina, and Mexico rather than the stricter demands of the Andean countries.

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- The Andean countries strongly favor strict international codes of conduct in both areas because their joint effort at regulation has not provided them sufficient control over foreign investment and technology. Even if their demands receive only limited support from other LDCs, this strategy may still gain the Andean Pact attention as a voice in Latin American and international affairs.

- The issue of technology transfer to LDCs will continue to be raised in several UN forums, regardless of whether an international code of conduct is agreed on. Results of the October negotiating conference on this code will provide a strong basis for forecasting further development of this issue at both UNCTAD V and UNCSTD.

* * *

Proposals to establish codes of conduct governing the behavior of transnational corporations abroad and the transfer of technology from industrialized to developing countries are within the purview of two different UN organizations. The UN Economic and Social Council's Commission on Transnational Corporations is charged with drafting a code of conduct for transnationals. A working group of the UN Conference on Trade and Development (UNCTAD) is responsible for drafting a code of conduct for the transfer of technology.

The difference between the two proposed codes lies in their specificity. The code of conduct for transnationals is intended to define overall norms of behavior for all corporate overseas activities, including non-technical issues such as bribery, interference in the internal affairs of host countries, profit repatriation, and reinvestment of profits in host countries. The proposed code of conduct for technology transfer has a narrower focus. Sections deal with national regulation of technology transfers, applicable law, and restrictive business practices regarding patents and licensing. Work on a draft of this code is proceeding rapidly--the negotiating conference will be held in October in Geneva.

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In contrast, a preliminary draft of a code for trans-nationals is probably at least a year away. No UN forum has been chosen for formalizing such a code.

LDCs, who have operated as a bloc in UN forums as the Group of 77 (G-77), exhibit varying degrees of interest in these proposed international codes of conduct. In general, the Latin American countries have taken the lead in formulating LDC demands in these areas. They have been especially vocal in expressing their desire for easier access to imported technology.

The Latin Americans have tried to develop a common strategy for controlling technology transfer and trans-nationals. A growing divergence of opinion is becoming evident within the group, however, as the major countries try to formalize a regional position on these subjects. Brazil, Argentina, and Mexico are ambivalent toward, or even opposed to, some demands made by the Andean countries regarding the proposed codes. The Brazilians particularly are trying to use their influence in the region to protect their freedom to apply their own laws to transnational corporations doing business in Brazil without sacrificing the idea of an international code of conduct. Since the Latin Americans have constituted the most active regional group in negotiating technology issues, disagreement among them could be a setback for the G-77 as a whole, since divergencies among other LDCs on these issues may now also appear.

Code of Conduct for the Transfer of Technology

The issues arising over the ways, means, and costs of transferring technology have become highly politicized in the past few years. They are now part of the general LDC demand for rapid and preferential transfers of resources from the developed countries. Several UN forums provide opportunities for LDCs to press for global action on technology issues, specifically regarding the flow of technology through existing market channels.

Work on the draft code of conduct for the transfer of technology will continue to progress rapidly if, as is likely, a US effort to postpone the scheduled October negotiating conference in Geneva is not successful. The Latin American countries are most interested in those

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sections of the code that deal with the cost of technology transfer. According to an UNCTAD study, annual payments made by seven major Latin American countries for imported technology have been growing faster than output in manufacturing, where the bulk of the technology is utilized. In 1975, payments to US corporations by their Latin American affiliates for patent, license, and other fees totaled \$389 million compared to \$174 million paid in 1965.

The Latin Americans hope that an international code of conduct for the transfer of technology will legitimize their own approach to regulation, both with the developed countries and with other LDCs. There is some difference of opinion among Latin American countries, however, regarding how this should be spelled out in the code. Mexico and Brazil, both of which have developed relatively workable legal frameworks for regulating technology transfers, will try to ensure that any prospective code does not restrict their sovereignty or freedom of action. Members of the Andean Pact--Bolivia, Colombia, Ecuador, Peru, and Venezuela--have been less successful in applying Pact regulations to technology transfer by foreign suppliers. Their capital and technology often seem to go to countries where conditions are not so strict. Since a subregional approach has not provided sufficient control over the terms of transfer, the Andean countries are likely to press for a strong international code that would commit all LDCs to uniform, mandatory controls.

The Andean countries have insisted that their governments could not ratify a code that did not explicitly condemn specific restrictive business practices that have already been banned in their domestic legislation. Demands such as these, which the industrialized countries have rejected, have slowed the negotiating process. Brazil and other moderate Latin American countries are concerned that such stalling will reinforce US efforts to postpone the October conference, with the result that no international code for technology transfer will be negotiated in the near future.

To forestall delay of the conference, Brazil has decided to remain flexible on contentious points that have led to an impasse between the more confrontation-minded LDCs and the developed countries. As a result,

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some members of the G-77 are questioning Brazil's commitment to LDC solidarity. At a recent working meeting on the draft code, a serious dispute erupted when the African group accused the Brazilian coordinator of being too moderate. The Brazilian has resigned temporarily, and it is unclear whether Brazil will lead the G-77 at the October negotiating conference.

Code of Conduct for Transnationals

Latin American countries led the movement that established the UN Center on Transnationals two years ago for the purpose of drawing up an international code to regulate the foreign investment practices of transnational corporations. There are 10 Latin American -- Caribbean members of the working group responsible for drafting the code. Many seem, however, to have lost their original enthusiasm for the task as difficulties arose in developing legal frameworks that would meet their individual needs.

Members of the Andean Pact are now the only Latin American countries continuing to press for a strict international code on transnationals. A growing lack of cohesion within the Pact, however, may undercut its influence in regional debates on this subject. Several members originally adopted very rigorous laws regarding foreign investment with counterproductive results--foreign firms simply chose to do business elsewhere. Bolivia and Ecuador are now pressing fellow members to ease restrictions on foreign investment. Venezuela has already adopted a more conciliatory attitude by reducing the number of companies that must be locally controlled. Chile's decision to withdraw from Pact membership last year was based in part on the view that Pact regulations hinder Chile's economic recovery. Despite these developments, the Andean Pact remains active within the Latin American regional group that deals with treatment of foreign investors. This probably represents an effort by the Pact to retain some voice in Latin American and international affairs at low cost.

Despite their concern over the business practices of transnationals, some Latin American countries have in practice found it necessary to encourage foreign investment, specifically in industrial sectors where their

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need for capital and technical expertise is greatest. The Andean Pact's activist rhetoric is meeting serious opposition from other Latin American powers, particularly Argentina and Brazil. Argentina has gone so far as to reject the idea of harmonizing national laws to regulate foreign investment even though such freedom of action may permit corporations to play off one country against another. This directly contravenes the Andean Pact agreement. Brazil, whose support as the largest Latin American economy is critical to the success of any regional movement, is more concerned with nurturing the growth of Latin American, and particularly Brazilian, transnational corporations. Thus, Brazil's primary interest is in making certain that the Latin American draft resolution on transnationals does not conflict with its national interests. As a result, the Latin American members of the UN working group on the transnational code of conduct have ceased to operate as a homogeneous group and lack a common strategy.

Outlook

Latin American countries are likely to continue support for international codes of conduct for both transnationals and technology transfer, even though several governments have apparently reached the conclusion that such codes probably will not result in meaningful changes. Given their needs, they will be most active in seeking innovative ways to obtain easier, lower cost access to foreign know-how. Discussions now under way serve the purpose of politicizing this issue and sensitizing foreign corporations and policymakers to the concerns of Latin America. Nonetheless, the developed countries are not likely to comply with all LDC demands aired in these multilateral discussions; most real progress in gaining access to needed technology is being made on a bilateral basis. Any agreement that can be said to represent a regional position on either of the two codes will most likely reflect the moderate views and leadership of the largest Latin American economies--Brazil, Argentina, and Mexico--rather than the more inflexible stance taken by the Andean Pact.

Technology transfer--the issue of greatest interest to Latin American governments--will be raised in other UN forums, regardless of whether an international code

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of conduct can be agreed on in October. For example, the director of the UNCTAD Technology Transfer Division is making a determined effort to make UNCTAD a leading forum in this field. He has proposed including a review of progress made on code of conduct negotiations in the agenda of the fifth session of UNCTAD next May. Consequently, if significant problems are encountered in October, the subject could cause difficulties at UNCTAD V.

There has also been some spillover to preparations for the UN Conference on Science and Technology for Development (UNCSTD), scheduled for August 1979. This conference is to discuss the policy considerations concerned with the accelerated application of science and technology at the national level and with increased international cooperation. At the second Preparatory Committee meeting, the G-77 submitted a draft resolution listing obstacles to the application of science and technology to their development, including restrictive practices in the transfer of technology and unequal and unjust licensing arrangements. Conflicting views also exist among G-77 members on this draft resolution, similar to divergencies observable in the code of conduct negotiations.

Results of the negotiating conference on the international code of conduct for technology transfer this fall will provide a strong basis for forecasting further developments in technology issues at the UNCTAD V and UNCSTD. It is unlikely that a final version of the code will be adopted in October, given the basic conflicts about the legal nature of the code. Few significant concessions have been made by any of the regional groups. Thus, conflicts over the scope and method of application of international technology transfer controls may become stumbling blocks for more than one UN conference.



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